

Decision 02-03-058 March 21, 2002

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of Southern California Edison Company (E 338-E) for Authority to Institute a Rate Stabilization Plan with a Rate Increase and End of Rate Freeze Tariffs.

Application 00-11-038  
(Filed November 16, 2000)

Emergency Application of Pacific Gas and Electric Company to Adopt a Rate Stabilization Plan. (U 39 E)

Application 00-11-056  
(Filed November 22, 2000)

Petition of THE UTILITY REFORM NETWORK for Modification of Resolution E-3527.

Application 00-10-028  
(Filed October 17, 2000)

**OPINION ADOPTING REVENUE  
REQUIREMENTS FOR COSTS RELATED TO  
THE INDEPENDENT SYSTEM OPERATOR**

**I. Summary**

This decision determines how certain Independent System Operator (ISO) charge adjustments will be addressed, both for Southern California Edison Company's (Edison) and Pacific Gas and Electric Company's (PG&E) 2002 revenue requirements and in the context of historical costs that were paid by the Department of Water Resources (DWR) but have not yet been addressed by the Commission.

On February 21, 2002, DWR sent a letter to the Commission President identifying certain cost adjustments. That letter and certain supporting

calculations were circulated to the parties for comments on March 4, 2002. Several parties filed comments and Edison drew our attention to a Letter Agreement that it executed with DWR dated February 28, 2002. On the basis of the comments we received, we have determined that this particular issue is now ripe for decision. The positions of the parties have been presented to the Commission and we see no reason to delay reaching a decision.

In addition, if we do not act on this matter today, DWR's revenue requirement will increase. This would trigger an obligation under Assembly Bill 1 of the First Extraordinary Session (AB 1X) for us to adjust the charges we instituted to recover that revenue requirement. We now have before us information indicating that these charges can be allocated in a way that avoids such an increase. That information includes an agreement between Edison and DWR. It would be irresponsible to allow DWR's revenue requirement to increase in this respect when the costs should in fact be collected in rates by Edison and PG&E, and should not form a part of DWR's revenue requirement, as Edison agrees.

However, we recognize that this decision resolves only a portion of the issues that are set to be resolved as a whole in our decision that addresses utility retained generation (the URG decision). We anticipate that decision will issue very soon. We intend to incorporate the holdings of this decision into that URG decision because the holdings of this decision are interrelated with the issues presented in the URG proceeding. By incorporating this decision into the broader URG Decision, we will allow this decision's holdings to be implemented in the broader context of the utilities' overall revenue requirements. In doing so, we intend to make whatever adjustments prove to be necessary to conform the

determination we reach today with the overall determinations of the URG decision.

Therefore, this decision establishes cost-of-service revenue requirements for costs related to the ISO and provision of ancillary services for PG&E and Edison. San Diego Gas & Electric Company (SDG&E) informs us that no adjustments are needed to its revenue requirement for these ISO-related costs. These revenue requirements are part of URG, which reflects the utility-incurred costs associated with utility-owned generation assets and purchased power.<sup>1</sup> In general, we establish the prospective URG revenue requirements by authorizing recovery of actual reasonably-incurred costs. Therefore, the initial revenue requirement we adopt in this decision will be trued up to reflect actual recorded costs. We find that \$232,571,428 should be added to the URG revenue requirements on a prospective basis. Of this amount, we allocate \$149,873,721 to PG&E and \$82,697,707 to Edison. PG&E's allocation will be adjusted to account for proper retail ratemaking treatment for disputed ISO-related costs incurred on behalf of municipal utilities and other wholesale entities. We adopt balancing accounts for PG&E, Edison, and SDG&E to ensure that reasonable costs related to these items will be recorded and recovered.

## **II. Background**

On November 5, 2001, DWR submitted an updated revenue requirement that was used to allocate revenue responsibility among the ratepayers of PG&E, Edison, and SDG&E. On November 7, the Federal Energy Regulatory Commission (FERC) issued a decision that instructed the ISO to stop sending

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<sup>1</sup> In Decision (D.) 01-01-061, the Commission defined URG broadly to include generation under utility control.

invoices to non-creditworthy entities, and instead send the invoices to DWR for payment.<sup>2</sup> On November 20, 2001, DWR received a bill from the ISO for charges incurred on behalf of the IOUs from January 17, 2001 through July 31, 2001. On December 6, DWR stated in a letter to Commissioner Brown that, although DWR disputed ultimate responsibility for some of the charge categories, DWR would pay the ISO invoice under protest. DWR also stated that its receipt and payment of the ISO invoice did not necessitate a revision to its revenue requirement of November 5, 2001. DWR has sought rehearing of the November 7 FERC order; that rehearing request is still pending.

On February 21, 2002, the Commission adopted D.02-02-052, which addressed the revenue requirements associated with power purchased by the California Department of Water Resources (DWR). Also on February 21, Commissioner Lynch received a letter from the DWR. This letter identified adjustments that could be made to PG&E's, Edison's, and SDG&E's URG revenue requirements to account for costs imposed by the ISO. In a ruling dated March 4, 2002, the assigned administrative law judge (ALJ) in the DWR revenue requirements phase of this proceeding directed that the DWR letter be placed into the administrative record. On the same date, Commissioner Lynch issued an Assigned Commissioner's Ruling (ACR or the March 4 Ruling) that solicited comments on whether the URG revenue requirement adjustments identified in the February 21<sup>st</sup> letter are appropriate and should be implemented in the URG phase of this docket.

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<sup>2</sup> California ISO, 97 FERC ¶ 61,151 (2001) (November 7 FERC order).

The adjustments identified in the February 21<sup>st</sup> letter rely on data previously placed into the record in the December 6 DWR letter to Commissioner Brown. The Commission's Energy Division reviewed the data contained in the December 6<sup>th</sup> letter and the related adjustments identified in the February 21<sup>st</sup> letter.

The ACR explained that the proposed decision (PD) of the assigned administrative law judge provided for recovery of actual, necessary, and reasonable costs related to prospective generation costs incurred by the utilities. The PD also recognized that ISO-related costs might be incurred by the utilities and provided for recovery of such costs in the utilities' URG revenue requirement amounts subject to avoidance of double collection. Based on the February 21<sup>st</sup> letter, the ACR concluded that the PD may have omitted discussion of ISO-related costs that the utilities must pay on or before September 1, 2002. Parties were therefore given the opportunity to review the adjustments identified in the February 21<sup>st</sup> letter and comment on whether it is reasonable to make such adjustments in the utilities' prospective URG revenue requirement and order that such costs be paid by September 1, 2002. PG&E, Edison, SDG&E, the Office of Ratepayer Advocates (ORA), and The Utility Reform Network (TURN) submitted comments. DWR submitted another letter to Commissioner Lynch, along with a Letter Agreement between DWR and Edison, as we discuss below.

### **III. DWR**

In a March 14 letter to Commissioner Lynch, DWR explains that it has received additional invoices from the ISO and has included a summary of the actual ISO disputed charges paid by DWR relating to certain transmission,

distribution, and administrative costs.<sup>3</sup> DWR also recognizes that Edison and PG&E have paid a portion of the GMCs. Based on information previously provided by Edison and PG&E, DWR has also prepared a summary of these amounts paid by Edison and PG&E in 2001.

In addition, since submitting DWR's letter dated February 21, 2002, DWR has entered into a Letter Agreement with Edison (the Edison Agreement) dated February 28, 2002.<sup>4</sup> This Agreement allocates the financial responsibility of certain ISO-invoiced transmission, distribution, and administrative charges between DWR and Edison. Consistent with DWR's filings at FERC and DWR's letter dated December 6, 2001 to Commissioner Brown, DWR has agreed with Edison to assume responsibility for ISO charges relating to ancillary services and imbalance energy costs as shown in Exhibit A-1 of the Edison Agreement.

DWR states that the treatment of credits and charges related to certain instructed energy referred to as CAISO charge type 401 and 481 is consistent with DWR's previous submissions to the Commission, but Edison will be seeking clarification from the Commission as to financial rights and responsibilities for such credits and charges. As shown in Exhibit A-2 of the Edison Agreement, Edison has accepted responsibility for all other ISO invoiced charges related to transmission, distribution, and administrative costs. Accordingly, Edison will reimburse DWR and pay on a going-forward basis all of the Edison amounts shown in the ISO Disputed Charges attached to the March 14 letter.

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<sup>3</sup> The March 14 DWR letter is Attachment 1 to this decision.

<sup>4</sup> The Edison Agreement is Attachment 2 to this decision.

#### **IV. PG&E**

PG&E's estimates of ISO-related costs are limited to the grid management charge (GMC) assessed by the ISO. PG&E states that GMC charges average \$8 million per month from June through December 2001. However, PG&E recognizes that the pending litigation by the ISO may require PG&E at some point to pay additional costs to the ISO or any other party for whom the ISO acted as agent.<sup>5</sup> Consequently, PG&E proposes that ISO costs be adjusted and updated monthly to reflect actual costs.

In response to the March 4 Ruling, PG&E argues that DWR has inappropriately attempted to use the lead-lag revision to its revenue requirement in the DWR revenue requirement proceeding to modify the URG revenue requirement to include amounts that are being billed directly to DWR by the ISO. PG&E argues that these DWR ISO costs cannot lawfully be included in the URG revenue requirement because the ISO costs are part of the costs DWR is incurring to meet the needs of utility customers. Further, PG&E contends that if the Commission were to attempt to include DWR's ISO costs in the utilities' URG revenue requirements, this would be unlawful because it is the utilities' customers, not the utilities directly, who are responsible for the costs DWR is incurring to provide power pursuant to Assembly Bill 1X of the First Extraordinary Session (AB1X). Essentially, PG&E contends that imposing these

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<sup>5</sup> PG&E states that it accrued more than \$500 million in ancillary service charges for the month of January 2001. During that month, PG&E's credit rating was downgraded below investment grade. PG&E also asserts that in February 2001, FERC ordered that the ISO cannot purchase ancillary services on behalf of non-creditworthy entities. PG&E argues that it does meet ISO creditworthiness requirements and therefore cannot be responsible for ancillary services provided in ISO markets. The ISO sought rehearing on the order; its motion was denied.

costs upon the utilities as part of their URG revenue requirements is an attempt by DWR to circumvent the November 7 FERC order.

PG&E further argues that the Commission has already addressed the issue of whether the utilities themselves, as opposed to the utilities' customers, are responsible for DWR's ISO costs. In D.01-01-061 the Commission included language indicating that the utilities would be liable for any shortfall between the DWR price of the power provided to a particular utility's customers and the amount collected in trust for DWR. In D.01-02-077 the Commission modified D.01-01-061 to remove that liability, and referred to the plain language of AB 1X.

PG&E further notes that it has already included an estimate of GMC charges in its URG revenue requirement estimate. Thus, at least with respect to PG&E, to the extent DWR demonstrates to PG&E that some of the GMC charges DWR has incurred are legally the responsibility of PG&E under relevant FERC rulings and ISO tariffs, then PG&E is willing to negotiate and has been negotiating an appropriate approach that ensures that DWR is reimbursed consistent with the GMC charges for which PG&E is actually responsible while also protecting utility customers against double recovery.

## **V. Edison**

Edison asserts that the ISO assesses numerous market and administrative charges upon Edison's load and generation. Edison asserts that it cannot precisely project the amount or type of ISO-related charges that it may incur prior to 2003 due to its credit status. Edison proposes to record all ISO-related charges in a balancing account.



Nonetheless, Edison projects annual costs associated with Edison's retail bundled load and retained generation and contracts for (1) Edison's total ancillary services requirements,<sup>6</sup> and (2) ISO "uplift" charges. Additionally, Edison allocated such costs between Edison and the DWR, depending on whether Edison is an investment grade entity.

Due to the lack of liquid forward ancillary services markets, Edison states that it cannot offer a sophisticated analysis of costs. However, Edison does attempt to estimate its total annual ancillary services costs for 2002, using a "crude" forecasting approach that relies upon the most recent six-month period to forecast 2002 annual ancillary services. Edison does not address whether it is responsible for all, a portion, or none of such costs. Edison forecasts 2002 ancillary costs of zero under a "non creditworthy" scenario and \$486.8 million under a "creditworthy" scenario.

Edison states that it cannot offer a sophisticated analysis of ISO uplift charges, but makes a rough estimate for 2002. Edison does not address whether it is responsible for all, a portion, or none of such costs. Edison projected total annual ISO uplift charges of approximately \$68 million under its "non-creditworthy" scenario and \$740 million under its "creditworthy" scenario.

Edison proposes to allocate to both Edison and DWR<sup>7</sup> any ISO charges for ancillary services and other uplift charges billed to Edison as the scheduling coordinator for its controlled generation and bundled load. Edison asserts that

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<sup>6</sup> Ancillary services under ISO control consist of spinning, non-spinning, regulation up and down, and replacement reserve.

<sup>7</sup> Edison proposes to allocate charges to DWR while DWR is providing energy to Edison's bundled customers.

the allocation methodology is dependent on the creditworthiness of Edison, pursuant to FERC Orders.

Edison and DWR explain that Edison has now entered into a Letter Agreement with DWR. Under the Letter Agreement, DWR and Edison each agree to accept financial responsibility for certain ISO-invoiced charges, and a detailed list attached to the Letter Agreement sets forth which party is responsible for different charges. The Letter Agreement sets forth a timetable under which Edison will pay ISO-related charges owed to the DWR and a procedure for resolving remaining disputed issues. Edison states that:

(1) Edison should have full cost recovery of all ISO-related charges paid to DWR, (2) these charges should be part of Edison's URG revenue requirement, (3) the charges should not be subject to reasonableness review, and (4) charges which Edison pays to DWR in 2002 – regardless of when DWR incurred those costs – should be recoverable.

Edison explains that although its URG revenue requirement should be increased to cover costs it pays which are invoiced by the ISO to DWR, adjusting the revenue requirement based on Appendix C from the March 4 Ruling is nearly impossible, because costs which were forecast for August through December 2001, and all of 2002, are not divided between Edison and PG&E. Moreover, DWR provides no basis for its forecast, nor was its forecast included in the record of the URG proceeding.

The only issues on which DWR and Edison were unable to agree were those related to the treatment of "Instructed Imbalance Energy," as defined in the ISO tariff. These issues – the treatment of Instructed Imbalance Energy costs, and whether Instructed Imbalance Energy provided by Edison generation and contracts to the ISO in real time should be considered to serve Edison's retail

load (and hence should be considered Imbalance Energy for purposes of calculating remittances under the Letter Agreement) – will be presented to the Commission for decision. It would be inappropriate for the Commission to attempt to resolve this dispute between Edison and DWR in the Commission's upcoming decision on the URG revenue requirement, because neither Edison nor DWR have presented their position and the basis for that position to the Commission.

DWR and Edison have agreed on a process for implementation of the Letter Agreement. Within 15 business days of the Letter Agreement the parties will enter into an amendment of DWR's June 23, 2001 Servicing Agreement (Amendment) and Edison will then file a motion at the Commission to seek expedited approval of the Amendment and another motion requesting resolution of the Instructed Imbalance Energy issue.

Edison contends that the Letter Agreement removes the need to reimburse DWR for ISO-related costs by March 22, 2002, as requested in the February 21, 2002 letter. In addition, if the ISO costs that Edison pays receive balancing account treatment in the Commission's adopted URG decision, there is no compelling need to revise Edison's URG revenue requirement now to reflect any additional costs borne as a result of the Letter Agreement. In the event that revisions to DWR's revenue requirement become warranted as a result of the ISO costs DWR bears under the Letter Agreement, DWR may provide a new revenue requirement to the Commission pursuant to the CPUC-DWR Rate Agreement.

In authorizing the inclusion of ISO-invoiced charges in the URG revenue requirement, Edison maintains that the Commission must ensure that the ratemaking for those charges is consistent with Resolution E-3765 (Resolution), which approved (with some modifications) the Procurement Related Obligations

Account (PROACT) and the associated ratemaking structure. Edison suggests that the ISO-invoiced costs be recovered through the PROACT mechanism by first being recorded in the Settlement Rates Balancing Account (SRBA).

Since the ISO directly invoices DWR for ISO charges pursuant to FERC's creditworthiness orders, Edison states that it is logical for the Letter Agreement to provide that DWR pay these charges directly to the ISO and that Edison reimburse DWR for Edison's share of these charges. Edison also points out that ISO charges, such as the Grid Management Charge, uplift charges, and ancillary services charge are set by the ISO in accordance with FERC-filed tariffs, and Edison has no opportunity to negotiate these charges. Thus, Edison contends that ISO charges should not be subject to reasonableness reviews or disallowance, but should be recorded in the appropriate account for direct recovery.

Finally, Edison notes that a large portion of the ISO invoiced charges are for 2001. Thus, assuming the Commission approves the Letter Agreement, Edison will remit to DWR in 2002 amounts for ISO charges for 2001. Edison seeks confirmation that all ISO-related charges which Edison pays pursuant to the Letter Agreement are authorized for recovery even though some of the costs may relate to 2001.

## **VI. ORA**

ORA recognizes that PG&E asked for approximately \$8 million per month for GMC charges. PG&E did not refer to other ISO charges in its submissions. The DWR letter of December 6 allocates responsibility to PG&E for non-energy related charges, including GMC, just as it did for Edison. Using the table in Appendix C of the ACR, ORA agrees that PG&E's costs are approximately \$8.4 million per month for GMC for the period from August 2001 to December

2002. When other ISO charges are included along with the GMC estimate, the monthly ISO charges are approximately \$13 million. ORA states that the allocation of the charges among DWR, Edison, and PG&E is reasonable. In addition, ORA states that the other ISO charges assigned to PG&E are for the most part consistent with those assigned to Edison and SDG&E in their respective letter agreements with DWR.

Similarly, ORA notes that Edison's non-creditworthy scenario projected approximately \$68 million to cover non-energy charges including Unaccounted For Energy (UFE), GMC, Neutrality, Congestion, Wheeling, Interest, and Penalties. DWR (in exhibit B of its December 6 letter) takes responsibility for UFE and Neutrality, and this is consistent with the Edison Letter Agreement. Again, based on Appendix C, ORA estimates that Edison's costs associated with the disputed ISO charges over one year to be approximately \$72 million. ORA finds both the allocation of the charges between DWR and Edison and forecasted level of charges to be reasonable. ORA finds the adjustments consistent with both Edison's submissions in the URG phase record and with its Letter Agreement with DWR. ORA also states that the allocation of the various ISO charges between DWR and the IOUs is reasonable and consistent with testimony submitted in the URG proceeding. Therefore, ORA recommends that we adopt the proposed adjustments to ISO charges in the URG phase of A.00-11-038.

## **VII. TURN**

TURN agrees that reasonable costs of ancillary services should be recoverable from ratepayers as a cost of generation. However, if DWR pays for ancillary services, such costs should be considered DWR costs. TURN also maintains that ancillary service costs should be lower than PG&E's estimate,

since the recent decline in market prices for energy can be expected to affect ancillary services markets as well.

TURN expects that PG&E will provide significant amounts of its own ancillary services and should only have to purchase a small amount due to PG&E's hydro assets. Prior to the run-up in energy prices, TURN estimated that PG&E's hydro facilities would provide about \$50 million in ancillary service revenue. TURN believes that PG&E may actually have surplus ancillary services for sale from its URG at certain times of day and of the year. If so, any payments or credits for that surplus made to PG&E by DWR should become a revenue credit, which should flow through to ratepayers.

TURN believes that the provision of ancillary services and the scheduling and dispatch of PG&E's URG should remain subject to reasonableness review because it affects the quantity, timing, and cost of the net short that must be purchased by DWR. TURN also recommends that revenues PG&E receives from the ISO or DWR for Reliability Must Run (RMR) services should be subtracted from costs for PG&E-owned generation costs.

TURN also contends that a portion of the revenue requirement adjustments described in the DWR February 21 letter are associated with ISO charges related to PG&E's wholesale load. TURN contends that these adjustments should not be included in the DWR revenue requirement adopted for the utility's retail customers, even if the DWR revenue requirement will be subsequently adjusted to reflect payments the ISO receives from wholesale customers for such wholesale charges. To remedy this, TURN argues that the revenue requirement adjustments should be reduced by the amount of charges attributable to wholesale load. TURN offers two approaches. If the Commission determines to remove all charges associated with the Business Associate

categories relating to wholesale load (BAID 1015 and 3932), TURN states that the total PG&E charges (\$1,545,593,717) should be reduced by the total charges listed for BAID 1015 (\$35,959,474) and BAID 3932 (\$482,648,173), yielding an adjusted PG&E total of \$1,026,986,070. If the Commission instead determines to remove only those wholesale load charges for the “disputed charges” summarized in Appendix C of the ACR, TURN calculates approximately \$31 million of disputed charge, which relate to wholesale loads and should be deleted.

#### **VIII. SDG&E**

SDG&E defines ISO charges as consisting of three primary components, (1) ancillary services, (2) “other ISO charges” and (3) GMC. Pursuant to the SDG&E MOU, SDG&E asserts that DWR has responsibility for paying the ancillary services component of ISO charges. Thus, SDG&E excludes from its URG revenue requirement the cost of ancillary services. The remaining ISO charges (“other ISO charges” and GMC) are included in SDG&E’s URG revenue requirement. In addition, SDG&E excludes the costs for intermediate-term contracts from its proposed URG revenue requirement. SDG&E states it included the costs for intermediate-term contracts in DWR’s revenue requirement.

SDG&E has paid, and will continue to pay, the ISO for all appropriate ISO-related charges pursuant to the Restated Letter Agreement between SDG&E and DWR dated June 18, 2001. Schedule 1 to the Restated Letter Agreement identifies those ISO charges for which SDG&E is responsible. SDG&E is current in its compliance with the Restated Letter Agreement. SDG&E’s forecast of its URG costs in this proceeding included ISO charges that it is contractually obligated to pay pursuant to Schedule 1. Consequently, as reflected in the ACR, no

adjustments are necessary to SDG&E's prospective URG revenue requirement to reimburse the ISO for past-due charges incurred on SDG&E's behalf.

## **IX. Discussion**

We agree with ORA that the allocation of the charges among DWR, Edison, and PG&E is reasonable and that the other ISO charges assigned to PG&E are for the most part consistent with those assigned to Edison and SDG&E in their respective letter agreements with DWR. In addition, we are pleased that DWR and Edison have resolved their differences and have executed a Letter Agreement. We accept this agreement as resolving the charges in dispute. By taking these actions we presume that we have now met our obligation to DWR and we also presume that the Edison Letter Agreement is part of that obligation. We encourage PG&E to take a similar approach with DWR. We see no reason to treat these two utilities differently. We note that the Edison Agreement specifically provides that there will be no double billing of retail customers for the ISO invoiced charges. Although it is true that rehearing of the November 7 FERC order is still pending, there is no reason to assume that such a Letter Agreement that provides for payment of particular items by Edison to DWR on a particular timetable would not be accepted by FERC. DWR continues to pay the ISO; the utilities now pay DWR for the ISO-related costs. Since Edison and PG&E are not yet credit-worthy, this is an appropriate approach at this point in time.

While we adopt an approach that requires the utilities to reimburse DWR for ISO-related costs, this method does not, on its face, violate AB1X. We have provided for recovery of these costs from customers, i.e., the ratepayers will be paying for these revenue requirements. Since we are taking a balancing account approach, the utilities have little risk in this regard. We recognize that the



utilities have little control over these costs, we intend to audit the costs to ensure that DWR is paid on a timely basis and that any revenues associated with RMR or the provision of ancillary services are credited appropriately.

We agree with TURN in principle. Retail ratepayers should not bear the costs of servicing municipal utilities and other wholesale entities. We will exclude from PG&E's 2002 URG revenue requirements the disputed ISO-related costs incurred on behalf of municipal utilities and other wholesale entities. This does not change the amount that PG&E must remit to DWR. We order PG&E to file and serve a pleading in this proceeding that establishes a memorandum account to quantifies and tracks these costs. PG&E shall file and serve this pleading on March 26, 2002. Parties may file and serve comments on PG&E's filing no later than March 29. We will address proper retail ratemaking for these costs in the main URG decision.

Therefore, we will adopt the forecasted costs for 2002 as shown in Table 1 below:

**TABLE 1**

		<b>Disputed Charges</b>				
Charge Discription	ISO Charge Type	January 17 - July 31, 2001 / 1			Forecast / 2	
		PG&E	SCE	Total	Aug - Dec 2001	2002
GMC	521, 522, 523	47,926,087	34,741,067	82,667,154		
<i>IOU Payments to DWR /3</i>		<i>30,079,298</i>	<i>12,292,656</i>	<i>42,371,954</i>		
Total GMC		17,846,789	22,448,411	40,295,200	66,000,000	180,000,000
Congestion (URG Related)	203, 204, 253, 254, 256	23,338,440	(4,473,299)	18,865,141	15,000,000	36,000,000
Demand Relief	117, 3482, 3483	2,572,782	2,264,745	4,837,527	6,428,571	8,571,429
Summer Reliability	1120, 1121	3,465,271	3,108,654	6,573,925	1,000,000	6,000,000
Wheeling Charges	382, 383	74,214	43,146	117,360	208,333	500,000
Voltage Support	1302	769,443	9,550	778,993	625,000	1,500,000
Penalties	485	12,596,773	633,470	13,230,243	-	-
Total		60,663,712	24,034,677	84,698,389	89,261,905	232,571,428

For purposes of this decision, we authorize that revenue requirements increase to cover actual costs spent in 2002 for ISO-related costs associated with 2002. Using the actual disputed charges between January and July 2001 (as delineated in the December 6 DWR letter), we produced ratios between PG&E and Edison and then applied those percentages to the going-forward forecasts for each period. For example, the actual GMC charge in dispute for January – July 2001, was \$82,667,154. 57.97% of this amount was allocated to PG&E and 42.03% was allocated to Edison. We applied these same percentages to allocate the forecast of the remaining months in 2001 (\$66,000,000) between PG&E (57.97% or \$38,263,344) and Edison (42.03% or \$27,736,656). This approach is also consistent with the Edison Letter Agreement. Table 2 shows the allocated charges. Note that PG&E's allocation will be adjusted in the main URG decision to establish proper retail ratemaking for disputed ISO-related charges incurred on behalf of municipal utilities and other wholesale entities.

**TABLE 2**

		<b>Disputed Charges</b>					
		Forecast / 2					
Charge Discription	ISO Charge Type	Aug - Dec 2001			2002		
		PG&E	SCE	Total	PG&E	SCE	Total
GMC	521, 522, 523						
<i>IOU Payments to DWR / 3</i>							
Total GMC		38,263,344	27,736,656	66,000,000	104,354,574	75,645,426	180,000,000
Congestion (URG Related)	203, 204, 253, 254, 256	15,000,000	-	15,000,000	36,000,000	-	36,000,000
Demand Relief	117, 3482, 3483	3,418,960	3,009,611	6,428,571	4,558,614	4,012,815	8,571,429
Summer Reliability	1120, 1121	527,124	472,876	1,000,000	3,162,742	2,837,258	6,000,000
Wheeling Charges	382, 383	131,742	76,591	208,333	316,181	183,819	500,000
Voltage Support	1302	617,338	7,662	625,000	1,481,611	18,389	1,500,000
Penalties	485	-	-	-	-	-	-
Total		57,958,508	31,303,397	89,261,905	149,873,721	82,697,707	232,571,428

Both PG&E's and Edison's URG revenue requirement should reflect only actual ISO-related costs paid by each utility. To the extent DWR pays for ISO charges or ancillary services and PG&E and Edison reimburse DWR, these costs should also be recorded in a balancing account. Similarly, to the extent PG&E or Edison receives revenues for RMR or ancillary services it provides, such revenues should be credited to the appropriate balancing account. No recovery will be provided for 2001 costs, although we do require that the utilities remit payment to DWR either in accordance with their respective Letter Agreements (Edison and SDG&E) or no later than September 1, 2002 (PG&E). PG&E's and Edison's 2001 rates include a generation-related component of the retained rates and a procurement surcharge. These rate components include an amount to cover the 2001 ISO-related costs described in this decision.

We agree with Edison that the ratemaking for these charges should be consistent with Resolution E-3765 that approved Edison's PROACT account and associated ratemaking. The ISO-invoiced costs should be recovered through the PROACT mechanism by first being recorded in the Settlement Rates Balancing Account (SRBA). This account, in turn, is used in determining the amount of Surplus to be applied to the PROACT balance on a monthly basis by comparing Settlement Rate revenues with Recoverable Costs.

PG&E should establish balancing accounts to record and track these costs, to the extent that such balancing accounts do not yet exist.

### **Comments**

Rule 77.7(f)(9) of the Commission's Rules of Practice and Procedure requires that the Commission engage in a weighing of interests in determining whether or not we may waive the 30-day comment period. As stated above, if we do not act on this matter today, DWR's revenue requirement will increase. It

would be irresponsible to allow DWR's revenue requirement to increase in this respect when the costs should in fact be collected in rates by Edison and PG&E, and should not form a part of the DWR's revenue requirement, as Edison agrees. We conclude that the public interest in avoiding such an increase for DWR outweighs the public interest in reviewing and commenting on the decision. We therefore waive comments on this decision.

### **Findings of Fact**

1. This decision establishes cost-of-service revenue requirements for costs related to the ISO and provision of ancillary services for PG&E and Edison, and are part of the URG revenue requirements for these utilities.
2. We intend to incorporate the holdings of this decision into the URG decision because the holdings of this decision are interrelated with the issues presented in the URG proceeding. By incorporating this decision into the broader URG decision, we will allow this decision's holdings to be implemented in the broader context of the utilities' overall revenue requirements.
3. DWR has entered into a letter agreement with Edison (the Edison Agreement) dated February 28, 2002. This Agreement allocates the financial responsibility of certain ISO-invoiced transmission, distribution, and administrative charges between DWR and Edison. DWR has agreed with Edison to assume responsibility for ISO charges relating to ancillary services and imbalance energy costs as shown in Exhibit A-1 of the Edison Agreement.
4. Since the ISO costs that Edison pays will receive balancing account treatment, there is no need to revise Edison's URG revenue requirement now to reflect any additional costs borne as a result of the Letter Agreement.
5. The allocation of the charges among DWR, Edison, and PG&E is reasonable and the other ISO charges assigned to PG&E are for the most part

consistent with those assigned to Edison and SDG&E in their respective letter agreements with DWR.

6. Both PG&E's and Edison's URG revenue requirement should reflect only actual ISO-related costs paid by each utility.

7. To the extent DWR pays for ISO charges or ancillary services and PG&E and Edison reimburse DWR, these costs should also be recorded in a balancing account. Similarly, to the extent PG&E or Edison receives revenues for RMR or ancillary services it provides, such revenues should be credited to the appropriate balancing account.

8. No recovery will be provided for 2001 costs, although we do require that the utilities remit payment to DWR either in accordance with their respective Letter Agreements (Edison and SDG&E) or no later than September 1, 2002 (PG&E).

9. PG&E's and Edison's 2001 rates include a generation-related component of the retained rates and a procurement surcharge. These rate components include an amount to cover the 2001 ISO-related costs described in this decision.

10. We intend to audit the ISO-related costs and the balancing accounts to ensure that DWR is paid on a timely basis and that any revenues associated with RMR or the provision of ancillary services are credited appropriately.

11. Retail ratepayers should not bear the costs of servicing municipal utilities and other wholesale entities.

12. The ratemaking for these charges should be consistent with Resolution E-3765 that approved Edison's PROACT account and associated ratemaking. PG&E should establish a balancing account balancing accounts to record and track these costs, to the extent that such balancing accounts do not yet exist.



13. SDG&E has paid, and will continue to pay, the ISO for all appropriate ISO-related charges pursuant to the Restated Letter Agreement between SDG&E and DWR dated June 18, 2001.

14. SDG&E is current in its compliance with the Restated Letter Agreement. SDG&E's forecast of its URG costs in this proceeding included ISO charges that it is contractually obligated to pay pursuant to Schedule 1. No adjustments are necessary to SDG&E's prospective URG revenue requirement to reimburse the ISO for past-due charges incurred on SDG&E's behalf.

### **Conclusions of Law**

1. It is reasonable to adjust the URG revenue requirements for PG&E and Edison to reflect the adjustments requested by DWR in its February 21, 2002 letter to the Commission.

2. We accept the Edison Letter Agreement as resolving the charges in dispute. By taking these actions we presume that we have now met our obligation to DWR and we also presume that the Edison Letter Agreement is part of that obligation.

3. Although it is true that the rehearing of the November 7 FERC order is pending, there is no reason to believe that the Edison Letter Agreement or any other regulatory approach by which the utilities pay DWR for ISO-related costs is inconsistent with that order.

4. While we adopt an approach that requires the utilities to reimburse DWR for ISO-related costs, this method does not, on its face, violate AB 1X. Ratepayers continue to be responsible for costs associated with the URG revenue requirement.

5. We will exclude from PG&E's 2002 URG revenue requirements the disputed ISO-related costs incurred on behalf of municipal utilities and other

wholesale entities. This does not change the amount that PG&E must remit to DWR.

6. Pursuant to Pub. Util. Code Section 311(g)(3) and Rule 77.7(f)(9), we waive the comment and review period for this decision. It would be irresponsible to allow DWR's revenue requirement to increase in this respect when the costs should in fact be collected in rates by Edison and PG&E, and should not form a part of DWR revenue requirement, as Edison agrees. The public interest in avoiding such an increase for DWR outweighs the public interest in reviewing and commenting on the decision.

7. This decision should be effective today.

## **O R D E R**

### **IT IS ORDERED** that:

1. Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (Edison) shall adjust their respective 2002 utility retained generation revenue requirements to include the Independent System Operator (ISO)-related costs discussed in this decision. We authorize that total revenue requirements for the ISO-related costs increase by \$232,571,428. Using the methodology for allocating the ISO charges developed in the Department of Water Resources (DWR) December 6 letter, \$149,873,721 is allocated to PG&E and \$82,767,707 is allocated to Edison. Only reasonable, actual, recorded costs paid to the ISO or to DWR for ISO-related costs shall be recovered. PG&E's allocation shall be adjusted in the main decision for utility retained generation (URG) to consider the proper retail ratemaking for the disputed ISO-related charges incurred on behalf of municipal utilities and other wholesale entities.

2. By taking these actions, we have now met our obligation to DWR.

3. For Edison, the ISO-invoiced costs shall be recovered through the PROACT mechanism by first being recorded in the Settlement Rates Balancing Account.

4. PG&E shall establish a balancing account to recover these costs to the extent that such a balancing account is not yet established. Within five days of

the effective date of this decision, PG&E shall file a compliance advice letter to establish this account. The advice letter shall be effective upon review by the Energy Division, to the extent that the advice letter is in compliance with this decision.

5. PG&E, Edison, and San Diego Gas & Electric Company shall remit payment to DWR either in accordance with their respective Letter Agreements (Edison and SDG&E) or no later than September 1, 2002 (PG&E). No recovery will be provided for 2001 costs, although we do require that the utilities remit payment for the 2001 costs to DWR.

6. We order PG&E to file and serve a pleading in this proceeding that establishes a memorandum account to quantify and track the disputed ISO-related charges incurred on behalf of municipal utilities and other wholesale entities. PG&E shall file and serve this pleading on March 26, 2002. Parties may file and serve comments on PG&E's filing no later than March 29. We shall address proper retail ratemaking for these costs in the main URG decision.

This order is effective today.

Dated March 21, 2002, at San Francisco, California.

LORETTA M. LYNCH  
President  
HENRY M. DUQUE  
CARL W. WOOD  
GEOFFREY F. BROWN  
MICHAEL R. PEEVEY  
Commissioners



## **ATTACHMENT 1**

**State of California**

**The Resources Agency**

### **M e m o r a n d u m**

Date: March 14, 2002

To: Honorable Loretta Lynch, President  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, California 94102-3298

From: Department of Water Resources

Subject: Assigned Commissioner's Ruling (Utility Retained Generation Phase)

On March 4, 2002, Commissioner Lynch issued a ruling soliciting comments to a letter dated February 21, 2002 from the California Department of Water Resources ("CDWR"). Since submitting certain utility retained generation ("URG") revenue requirement adjustments as provided in the letter dated December 6, 2001 addressed to Commissioner Brown, CDWR has received additional invoices from the California Independent System Operator Corporation ("CAISO"). CDWR has prepared and hereby submits a summary of the actual CAISO charges invoiced to and paid by CDWR relating to certain transmission, distribution and administrative costs ("CAISO Disputed Charges"). As previously stated, CDWR believes that these transmission, distribution and administrative costs should be paid by each of the investor-owned utilities. To date, Southern California Edison Company ("SoCal Edison") and Pacific Gas and Electric Company ("PG&E") have paid a portion of the administrative costs generally known as "GMCs." Based on information previously provided by SoCal Edison and PG&E, CDWR has also prepared a summary of these amounts paid by So Cal Edison and PG&E in 2001.

In addition, since submitting CDWR's letter dated February 21, 2002, CDWR has entered into a letter agreement dated February 28, 2002 (the "SoCal Edison Agreement") with SoCal Edison. The SoCal Edison Agreement allocates the financial responsibility of certain CAISO invoiced transmission, distribution and administrative charges between CDWR and SoCal Edison. Consistent with CDWR's filings at the Federal Energy Regulatory Commission and CDWR's letter dated December 6, 2001 to Commissioner Brown, CDWR has agreed with SoCal Edison to assume responsibility for CAISO charges relating to ancillary services and imbalance energy costs as shown in Exhibit A-1 of the SoCal Edison Agreement.

The treatment of credits and charges related to certain instructed energy referred to as CAISO charge type 401 and 481 is consistent with CDWR's previous

submissions to the Commission. However, as currently provided in the SoCal Edison Agreement, SoCal Edison will be seeking clarification from the Commission as to financial rights and responsibilities for such credits and charges. As shown in Exhibit A-2 of the SoCal Edison Agreement, SoCal Edison has accepted responsibility for all other CAISO invoiced charges related to transmission, distribution and administrative costs, all as more specifically described in the SoCal Edison Agreement. Accordingly, SoCal Edison will reimburse CDWR and pay on a going forward basis of all of its amounts shown in the CAISO Disputed Charges attached to this letter.

If you have any questions or need additional information, please contact me at (916) 574-2733.

/s/ Peter S. Garris  
Peter S. Garris  
Deputy Director

Attachments

cc: Honorable Geoffrey F. Brown, Commissioner  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, California 94102-3298

Honorable Henry M. Duque, Commissioner  
California Public Utilities Commissioner  
505 Van Ness Avenue  
San Francisco, California 94102-3298

Honorable Carl W. Wood, Commissioner  
California Public Utilities Commissioner  
505 Van Ness Avenue  
San Francisco, California 94102-3298

Honorable Michael R. Peevey, Commissioner  
California Public Utilities Commissioner  
505 Van Ness Avenue  
San Francisco, California 94102-3298

Honorable Thomas R. Pulsifer, Administrative Law Judge  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, California 94102-3298

Honorable Joseph DeUlla, Administrative Law Judge  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, California 94102-3298

**CAISO Disputed Charges**

Charge/Description	ISO Charge Type	January 17 - July 31, 2001			August 1 - December 31, 2001			2002
		PG&E	SCE	Total	PG&E	SCE	Total	Forecast
GMC	521, 522, 523	\$ 47,926,087	\$ 34,741,067	\$ 82,667,154	\$ 22,358,163	\$ 22,424,080	\$ 44,782,243	\$ 180,000,000
Congestion (URG Related)	203, 204,253,254,256	\$ 23,338,440	\$ (4,473,299)	\$ 18,865,141	\$ 4,029,871	\$ 3,035,353	\$ 7,065,223	\$ 36,000,000
Demand Relief	117, 3482, 3483	\$ 2,572,782	\$ 2,264,745	\$ 4,837,527	\$ 1,975,383	\$ 2,095,846	\$ 4,071,229	\$ 8,571,429
Summer Reliability	1120, 1121	\$ 3,465,271	\$ 3,108,654	\$ 6,573,925	\$ 2,956,806	\$ 3,195,882	\$ 6,152,688	\$ 6,000,000
Wheeling Charges	382, 383	\$ 74,214	\$ 43,146	\$ 117,360	\$ 45,101	\$ 17,414	\$ 62,515	\$ 500,000
Voltage Support	1302	\$ 769,443	\$ 9,550	\$ 778,993	\$ 1,166,947	\$ 8,957	\$ 1,175,905	\$ 1,500,000
Penalties and Fees	408,485, 550	\$ 12,596,773	\$ 633,470	\$ 13,230,243	\$ 712,396	\$ 702,720	\$ 1,415,116	\$ -
Total Amount		\$ 90,743,010	\$ 36,327,333	\$ 127,070,343	\$ 33,244,667	\$ 31,480,251	\$ 64,724,918	\$ 232,571,429
Total GMC Paid by IOU		\$ (25,668,693.98)	\$ (12,292,655.75)	\$ (37,961,349.73)	\$ (22,358,163.02)	\$ (12,707,795.96)	\$ (35,065,958.98)	
Disputed Charges Paid by CERS		\$ (65,074,316.02)	\$ (24,034,677.25)	\$ (89,108,993.27)	\$ (10,886,503.65)	\$ (18,772,455.20)	\$ (29,658,958.85)	
Amounts Owed to ISO		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	

**(END OF ATTACHMENT 1)**



**ATTACHMENT 2**